

## Message Text

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PAGE 01 LIMA 08892 051816Z

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SUBJECT: PERUVIAN PURCHASE OF SOVIET ARMS: INTERNAL  
REACTION

1. SUMMARY. THIS MESSAGE COMMENTS UPON PERUVIAN DOMESTIC REACTION TO THE AS YET UNACCOUNTED ARRIVAL OF SOVIET TANKS. WE DO NOT KNOW WHEN OR HOW PERU WILL ANNOUNCE THE PURCHASE. THE EMBASSY CONCLUDES THAT LOCAL REACTION WILL HAVE LITTLE BEARING ON THE STABILITY OF THE MILGOV ALTHOUGH CONSERVATIVE, MIDDLE-CLASS PERUVIAN WILL BE MORE CONVINCED THAN EVER THAT THE VELASCO REGIME IS ALL BUT COMMUNISTIC. LOCAL BUSINESS CONFIDENCE MAY PLUMMET TO A NEW LOW.

2. WHILE THE PRO-MOSCOW LEFT WILL GENERALLY APPLAUD THE SOVIET PURCHASE, MOS PERUVIANS WILL PROBABLY REACT PASSIVELY TO THE ARRIVAL OF SOVIET TANKS JUST AS THEY DID WHEN, FOR EXAMPLE, RELATIONS WERE REAA ESTABLISHED WITH CUBA IN 1972.

3. CONSERVATIVE, MIDDLE-CLASS PERUVIANS (THE APRA AND ACCION POPULAR POLITICAL PARTIES, LAWYERS,

SECRET

SECRET

PAGE 02 LIMA 08892 051816Z

ENGINEERS, BUSINESSMEN) WILL MOST LIKELY BE SHOCKED

BY THE ARRIVAL OF SOVIET TANKS. THE ARMS TRANSACTION WILL CONFORM THEIR DEEPEST SUSPICIONS ABOUT THE RADICAL, COMMUNISTIC TENDENCIES OF PERESIDENT VELASCO. THIS GROUP WILL CONTINUE TO HOPE THAT SOME FORCE, OTHER THAN THEMSELVES, MIGHT EVENTUALLY TOPPLE THE MILGOV. NO SUCH FORCE, OF COURSE, EXISTS.

4. THE PERUVIAN ARMY WILL MOST PROBABLY ACCEPT THE SOVIET PURCHASE AS A RATIONAL, COMMERCIAL TRANSACTION THAT REPRESENTS A GOOD DEAL FOR THE SERVICE. THE NAVY AND AIR FORCE WILL PROBABLY CONSIDER THE TRANSACTION AS A DANGEROUS AND DISAPPOINTING MOVE ON THE PART OF THE ARMY BUT THE TWO WEAKER SERVICES WILL ACCEPT THE PURCHASE WITH RESIGNATION.

5. COMMENT: PERHAPS THE MOST SERIOUS EFFECT OF THE ARMS PURCHASE WILL BE TO UNDERMINE WHATEVER REMAINING CONFIDENCE PERUVIAN BUSINESSMEN HAVE IN THE LONG-TERM POLICIES OF THE GOP. PRIVATE PERUVIAN INVESTORS WILL PROBABLY ASSUME THAT ANOTHER MAJOR STEP HAS BEEN TAKEN ON THE ROAD TO PERUVIAN SOCIALISM. THE CONFIDENCE OF FOREIGN DIRECT INVESTORS IS ALSO LIKELY TO BE FURTHER SHAKEN. IT IS MORE DIFFICULT TO FORECAST THE REACTION OF FOREIGN BANKS AND OF DONORS OF PROJECT ASSISTANCE, WITH WHICH PERU HAS ENJOYED A HIGH CREDIT RATING. HOWEVER, THERE HAVE RECENTLY BEEN SOME SIGNS OF NERVOUSNESS ON THE PART OF THE INTERNATIONAL BANKING COMMUNITY OVER WHAT THEY PERCEIVE AS A FURTHER LEFTWARD DRIFT ON THE PART OF THE GOP. THIS NERVOUSNESS IS LIKELY TO BE ACCENTUATED, WITH PERU'S CREDIT RATING SUFFERING, AT LEAST IN THE SHORT RUN. IN THE LONGER RUN, HOWEVER, CONFIDENCE IN PERU'S ABILITY TO REPAY WILL CONTINUE TO DEPEND ON MORE PURELY ECONOMIC CONSIDERATIONS.

6. OVER THE LONGER TERM, PERU'S ECONOMIC PROBLEMS, E.G. COPING WITH INFLATION AND AVAILABILITY OF FOREIGN CREDIT IN SHORT TO MEDIUM TERM WILL POSE FAR MORE SERIOUS PROBLEMS FOR THE STABILITY OF THE VELASCO GOVERNMENT THAN THE ARRIVAL OF SOVIET ARMS. RECENT ANTI-MILGOV DIS-

SECRET

SECRET

PAGE 03 LIMA 08892 051816Z

TURBANCES IN CUZCO, PUNO AND AREQUIPA MAY ONLY BE A FORERUNNER OF WHAT PERU WILL SUFFER IF GASOLINE AND BREAD PRICES RISE SHARPLY. THERE IS NO QUESTION BUT THAT THE MILITARY GOVERNMENT COULD QUELL ANY RESULTANT DISORDERS BUT PRESIDENT VELASCO'S AUTHORITY COULD WELL SUFFER IN ANY SUCH PROCESS LEADING TO ANOTHER, HOPEFULLY MORE MODERATE, MILITARY PRESIDENT OF PERU. THE MILGOV IS WELL AWARE OF ALL THESE POSSIBILITIES

AND AT THIS POINT, IT HAS SEEMINGLY PUT OFF PRICE  
RISES. IT WOULD THEREFORE BE AN EXERCISE IN WISHFUL  
THINKING TO HOPE THA THE ARRIVAL OF SOVIET TANKS MAY  
SOMEHOW TOUCH OFF A SIGNIFICANT CONSERVATIVE REACTION  
AGAINST MILGOV.  
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